

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5797

EMPLOYMENT SECURITY DEPARTMENT

Agency No. 540

July 1, 1995 Through June 30, 1996

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Employment Security Department included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for the Employment Security Department.

Brian Sonntag, CGFM
State Auditor

December 29, 1996

EMPLOYMENT SECURITY DEPARTMENT
Agency No. 540
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Employment Security Department (ESD) Needs To Improve Control Over Access To The Financial Accounting And Reporting System (FARS) And The JOBS Financial System (JFS)

Our examination of controls over access to FARS and JFS at ESD revealed the following weaknesses:

- a. Individuals had system access who were no longer employed with ESD, were retired, or had moved to a different cost center.
- b. Individuals had access to payroll and vendor pay screens who no longer performed the input activity for these functions.
- c. Individuals in a supervisory position had input capability.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual prescribes the following:

Section 6.2.2.1.11 (j):

Controls are to be in place which safeguard and limit access to data processing equipment, tapes, disks, files, system documentation, and application program documentation to authorized employees.

Section 6.1.1.2.4.b.(1):

Division of Duties) Whenever possible, no individual is to have complete control over any type of asset in any agency, department, or division of the state.

Weaknesses concerning access to FARS and JFS are due to the lack of a formal policy and procedure to change access within the system as employees change positions or leave the agency. Weaknesses concerning access to FARS were noted in the *State of Washington Statewide Single Audit Report*, for fiscal years 1994 (Finding 122), and 1995 (Finding 112). Weaknesses relating to JFS access were noted in the fiscal year 1995 report (Finding 112).

Lack of adequate control procedures increases the risk that errors or irregularities could occur and not be detected.

We recommend that ESD:

- a. Review the existing FARS and JFS access listings for individuals no longer requiring access to the system and remove their access.
- b. Institute a procedure for removing access as individuals leave the agency or move to different cost centers within the agency.

Auditee's Response

Regarding the weaknesses of controls in the department automated systems, the following actions have been taken:

The Administrative Services Division has transferred the FARS security to the Office of Information Services (OIS). Presently there is an interdepartmental team being formed (JFS, Payroll, Systems, OIS, Personnel and Field) to work on streamlining the security controls to the department's systems.

The following has been or will be accomplished:

1. *OIS will complete by June 1997 an automated (on line) approach for cost center managers to view an employee's access to the department's automated systems. The cost center manager will be able to indicate employee transfers within cost centers, transfers between cost centers, or employee terminations to the systems security administrator to input deletions or transfers.*
2. *OIS has revised the Policy and Procedure No. 2010 that is presently in the review process. The policy gives guidance and identifies roles and responsibilities of the cost center manager in removing transferred or terminated individuals from all the department's automated systems.*
3. *Again, the agency will conduct an internal information campaign to reemphasize the importance of keeping system access up-to-date.*
4. *The team will continue to pursue the feasibility of including a statement or check block on the off-payroll notices or agency promotional or transfer form. This would remind cost center managers to remove system access to individuals leaving employment or transferring within the agency. This will also be a tool to monitor the security system.*

Auditor's Concluding Remarks

The agency's planned corrective actions in response to the prior two year's findings concerning these issues were not fully implemented. We strongly encourage ESD to implement the planned corrective actions in the current period. We will review the status of these conditions in the fiscal year 1997 audit.

2. The Employment Security Department (ESD) Should Establish Adequate Controls Over The Job Opportunities And Basic Skills (JOBS) Program

ESD failed to ensure adequate controls were instituted to safeguard JOBS assets. ESD lacks adequate controls over JOBS program transactions initiated through the JOBS Financial System (JFS) and over documentation associated with these transactions. There are no safeguards in the JFS system to preclude an individual staff person from:

- Entering a fictitious vendor.
- Entering a fictitious client.
- Authorizing an expenditure on the client's behalf.
- Approving a payment.
- Generating a warrant.
- Deleting a vendor or client from JFS reports used for review of transactions.
- Providing services to ineligible participants.

In addition to system deficiencies, we found no consistent compensating controls at JOBS field offices we visited. Instances were noted where one person was in a position to control all functions noted above. We found that:

- a. There was a lack of separation of duties at four of the nine JOBS offices tested. Individual staff members had control over all transaction processing. This included adding vendors to the system and authorizing and inputting expenditures.
- b. Supervisory review of JOBS program transactions, vendor lists and participant eligibility, was inadequate or did not exist at seven of the nine offices.
- c. Controls over the documentation for transportation payments at seven of the nine JOBS offices visited were inadequate.

The State of Washington Office of Financial Management (OFM) *Policies, Regulations, and Procedures* manual addresses basic principles of internal control at Section 6.1.1.2.4.b. which states in part:

- (1) Division of Duties) Whenever possible no individual is to have complete control over any type of asset in any agency, department, or division of the state. The work of employees handling public assets should be complementary to or checked by other employees. This will not only decrease the chance of loss by means of fraud or dishonesty, but will also provide a means to detect errors.
- (2) Sound Procedures and Policies) Every effort is to be made to ensure that the assets of the state are properly handled. By supplying employees with strict control procedures and ensuring that they are followed through the use of checks and audits, the chance of losses will be greatly decreased.

45 *Code of Federal Regulations* 92.20(b) states:

- (3) Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

ESD staff have indicated that in order to make JFS easy to use and thus streamline JOBS program operations, controls within the JFS system were not developed. Contributing to the weaknesses noted, compensating controls have not been developed at field office locations due to a lack of fixed responsibility for these duties within the agency and recent cutbacks in funding, which removed the monitoring function at ESD. As a result, ESD did not fully implement prior planned corrective action, or ensure that staff were adequately trained in supervisory review procedures and retention of payment documentation. These same

conditions were reported in the *State of Washington Statewide Single Audit Report* for Fiscal Years 1993 (Finding 42), 1994 (Finding 12) and 1995 (Finding 8).

Lack of adequate controls could result in the occurrence of undetected errors and/or irregularities and unallowable costs to the JOBS program.

We recommend that the agency establish adequate controls and documented procedures over the processing of JOBS program transactions through JFS.

We also recommend that ESD provide training to field staff on supervisory review procedures and retention of payment documentation.

Auditee's Response

Wherever feasible, system controls have been implemented. Admittedly, JFS system controls are not fail-safe. To do so would greatly impede staff in the performance of their duties resulting in a slower, process-driven system causing customer dissatisfaction. We believe that JOBS policies and procedures, when followed, provide the compensating controls to nullify the minimal risk factor.

In addressing the lack of separation of duties, the addition of a vendor in JFS by a single staff person is allowed; however, no staff person from the field can delete a vendor once it has been created and/or paid. A monthly listing of all vendor activity, including additions, updates and deletions (by central office staff) is generated for monitoring of this activity. JOBS payment procedures specifically require that payments must be approved by someone other than the person who authorized the purchase, usually a supervisor or designee. A memo dated November 15, 1995 was issued to the field and addressed this matter as it was a finding in an earlier audit (program year 94). The transition of the monitoring function and staff to DSHS during FY95 is a contributing factor for the lack of compliance in this area so the following action will be taken: 1) the JAS/JFS unit will issue a written monitoring policy and procedures guide for field staff to ensure adequate controls are in place; 2) the JAS/JFS unit will train staff in the use of proper controls; and 3) the JAS/JFS unit will review/monitor vendor batches and report its findings to the field.

Regarding inadequate or nonexistent supervisory review of JOBS transactions, vendor lists and participant eligibility, all supervisors will be provided a written monitoring policy and procedures guide and training to ensure that controls are in place. Ongoing training will be provided to new supervisors.

Finally, policy and procedures will be issued in writing to the field regarding the documentation, processing and retention of client transportation payments.

Auditor's Concluding Remarks

ESD has issued memos and policies in the past concerning proper internal controls; however, the same conditions cited in the finding continue to exist. As noted in the finding, the cause of these conditions is the failure to communicate expectations to staff and a lack of sufficient training and monitoring. We encourage the agency's planned corrective action in these areas.

Additionally, while it is true that vendors can no longer be deleted, a current vendor can be modified, a transaction conducted, then the prior vendor name restored. This sequence of events has the same effect as deleting a vendor. We believe the update function should also be restricted to central office staff.